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ONTARIO PUBLIC SCHOOL BOARDS' ASSOCIATION

# DISCUSSION PAPER

# CHANGING THE SCHOOL BOARD FISCAL YEAR

*April, 1991*

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## CHANGING THE SCHOOL BOARD FISCAL YEAR

**ISSUE:** **Whether the fiscal year of school boards should be changed from the calendar year to the school year.**

**Background**

The current fiscal year of school boards is the calendar year. However, in conducting their operations boards must deal with three distinct but overlapping time periods:

1. School operational year - September to June
2. Board fiscal year - January to December
3. Provincial fiscal year - April to March

Because the fiscal year of school boards is not the same as their operational year, budgets, programs and new initiatives are developed on the basis of two program years, one of which is half over. Board budgets, therefore, are substantially retroactive support for expenditures already incurred, rather than the planning documents they are meant to be. Consequently, trustee/staff accountability for board expenditures is reduced. Public understanding of school board finance is not assisted by the present arrangements.

A Board's accountability is further reduced by the fact that, in most cases, municipalities collect taxes on its behalf. Ratepayers often attribute the mill rate increases that result from trustees' decisions to municipal officials. This reduced visibility of trustees also tends to result in ratepayers focusing their concerns about education issues and education taxes on the Province.

Another significant problem is administrative. Under the current system, board administrative staff experience a very heavy workload between January and May, when audited financial statements must be prepared, the General Legislative Grants Regulations are published, budgets, municipal requisitions, and, in the case of some boards, mill rates must be finalized, and teacher negotiations are entered into.

## Impetus for Change

The advantages and disadvantages of changing the school boards' fiscal year to coincide with their operational year have been discussed for some time. Since 1972, several groups, both within the government and within the educational community, have studied and reported on the issue. It appears that the primary reason their recommendations were not acted upon is the short-term problems of implementing the change.

The issue has remained alive, however. In recent months, the Ministry of Education has received requests for a change in the fiscal year or indications of support for a change from the following groups: the Ontario Association of School Business Officials, the Ontario Association of Separate School Business Officials, the Completion Office Separate Schools, and several individual school boards. The Ontario Institute of Chartered Accountants, in a submission to the provincial government, also supported making the fiscal year and operational year of school boards coincide.

Additional support comes from the Third Report of the Select Committee on Education, the report on education finance, which recommended that, "The fiscal year should altered and reporting and budgetary procedures should be streamlined to more closely reflect the reality of the school year.". (Recommendation 29)

In all the states in the United States and in all other provinces with the exception of Nova Scotia, school boards' fiscal year coincides with the school year. Most recently, in 1987, Alberta changed to a fiscal year of September 1 to August 31.

Much of the current stakeholder support for a corresponding fiscal-operational year is contingent on the General Legislative Grants Regulations being published well in advance of the start of the boards' fiscal year. In recent years the GLG's have been published March 31, three months after the start of school boards' fiscal year and one day before their municipal requisitions must be in (April 1).

The Ministry has been keenly aware of the problems this late publication caused boards, but has been unable to publish earlier because the data on which the GLG's are dependent (assessment rolls, enrolment figures) is not available earlier. However, if the school boards' fiscal year coincides with their operational year, a GLG release date of March 31 will no longer present the same problem.

## Changing the School Boards' Fiscal Year: Advantages

Potential advantages of changing the fiscal year are organized within three broad subject areas:

Efficiency/Effectiveness - Does the change result in greater efficiency/effectiveness in school board operations, programs and/or administrative practices?

Empowerment - Does the change increase the ability of trustees and school board officials to make wise decisions about the utilization of scarce resources in the business of education? Does the change help ratepayers better understand the basis upon which school board decisions are made, thereby placing them in a position to better evaluate the performance of the board in financial terms? Does the change improve planning and decision-making processes?

Accountability - Does the change enhance the political accountability of trustees to their electorate and the operational accountability of school board officials to the elected trustees?

Following are potential advantages of having the boards' fiscal and operational year correspond:

### Efficiency/Effectiveness

1. The board will be able to prepare its budget in advance of the operational year, making it a true planning document.

2. Boards will be able to budget for human resources on a full year basis.

3. The cost implications of program changes will be fully reflected in the budget.

4. Board administrative staff will have more time to prepare year-end reports/financial statements.

5. The preparation of budgets and prior-year financial statements will be separated.

6. The administrative workload of school boards will be distributed more evenly throughout the year.

Empowerment

7. Boards will be able to evaluate for cost all new government initiatives introduced during the November transfer payments announcements and in the Throne speech and/or in the Provincial Budget well in advance of finalizing their budgets.

8. Budgets will be established with full knowledge of the provincial funding available. (Under the recommended option, discussed later, it is a condition that the General Legislative Grants Regulations will be published by March 31.)

9. There will be more time to evaluate academic programs prior to establishing a new budget.

10. The public will better understand a budget that plans ahead than one that includes expenditures already incurred.

11. Boards will be able to determine their municipal requisitions or set their mill rates with full knowledge of the provincial funding available. Generally, public boards determine requisitions while separate boards set their own mill rates; however, where there is no municipal organization, public boards set their own mill rates and collect their own taxes. (Under the recommended option, discussed later, it is anticipated that boards will determine their requisitions or set mill rates by June 1.)

Accountability

12. A board's budget will be a true political statement of the board's priorities and the accountability of trustees' decisions will be enhanced.

13. In a municipal election year, trustees will be required to defend recently struck budgets before the electorate.

14. The budget will govern a whole operational year, not just a part of it.

15. Expenditures will commence after a budget has been approved, not before as is the case now.

16. School year expenditures on supplies and equipment will be better reflected in financial statements. (Under the recommended option, discussed later, it is proposed that financial statements will be due November 15.)

17. Since boards and municipalities will have different budget-setting time frames, there will be a heightened public awareness of school board activity.

Note: According to a joint study undertaken by the Association of Municipalities of Ontario, the Ontario Association of School Business Officials, and the Association of Large School Boards in Ontario in 1988, it was estimated that the tax-collecting municipalities earned about $35 million in interest paid on school taxes from the time of collection until the time of remittance to school boards. Practices of remittance to school boards vary. A change in the fiscal year to a school year basis may tend to raise another issue: should school boards explore the possibility of adopting their own tax levying and collection systems. This possibility should be examined at a later date, however, and only on the basis of whether it makes good business and political sense to do so. While a move in this direction is consistent with the change in fiscal year, it is not an essential component of that change and is not recommended at this time.

## Changing the School Boards' Fiscal Year: Disadvantages

Potential disadvantages include:

1. The General Legislative Grants Regulations will be based more on enrolment projections than they are at present. This disadvantage is largely offset by the "certainty" adjustment made by the Ministry of Education in paying grants near the end of the school board fiscal year.

2. It is possible that taxpayers will be confused by school boards and municipalities having different fiscal years.

3. Some boards may think that conversion to a new fiscal year-end will be too costly and disruptive.

Regarding point 2, there will be a communication challenge in explaining the mill rate changes respecting the transition period and conversion to the new fiscal year. In this regard, the education mill rate percentage increase will not be comparable to that of the municipal mill rate increase

simply because these mill rate increases will be based on different fiscal years. In any event, the education mill rate and property tax component of the tax bill will no doubt receive a higher public profile.

Regarding point 3, it can be argued that the cost to convert to a new fiscal year-end is minimal and can be more than offset by savings in external auditor fees, tendering and purchasing of goods and services targetted to the school year in a planned fashion, elimination of peak workloads for school accounting departments and improved cash flow of interest on education property tax revenues.

## The Transition Period

### One-time Short Fiscal Year - January 1 to August 31

Part of the transition will involve a one-time short fiscal year, proposed to be January 1 to August 31. The corresponding abbreviated GLG Regulations will be issued March 31st, based on recent experience.

### Setting Mill Rates for the Short Fiscal Year

For the one-time short fiscal year, there will be two education mill rates struck.

#### The First Mill Rate

Currently, the Municipal Act and the Municipality of Metropolitan Toronto Act provide for the collection of an interim education levy, collected by municipalities on behalf of school boards, equal to 1/2 of last year's education levy. This provision will continue to apply only in the transition period. Education taxes will be raised from the Tax Collector's Roll based on this interim mill rate to the end of June. The balance of the education requirement to the year-end August 31 can only be determined once the grant entitlement under the abbreviated GLG Regulations is known.

#### The Second and Final Mill Rate

This mill rate will raise taxes from the Collector's Roll from July 1 to August 31 and equals:

the education budget for January 1 to August 31
less
the interim levy
less
provincial grants per the abbreviated GLG Regulations which corresponds to the short fiscal year

The abbreviated GLG Regulations would be issued March 31st and the final education levy requirement would be communicated to municipalities on or before May 1.

## The New Fiscal Year - September 1 to August 31

It is proposed that a new GLG Regulation will be issued in April in respect of the new fiscal year - September 1 to August 31, and that this requirement be made mandatory by amending the Education Act accordingly.

## Setting Mill Rates for the New Fiscal Year

The school board determines its budgetary requirements for the new fiscal year. It determines its provincial grants per the GLG Regulations. The budgetary requirements, less the provincial grants, equals the amount of property taxes to be raised locally. This levy requirement is communicated to the school boards' municipalities by May 1 for the setting of mill rates and tax collection on the basis of a proposed and new schedule of tax remittances by municipalities to school boards. To effect this, the Municipal Act and the Municipality of Metropolitan Toronto Act will be amended to replace the interim education levy provisions (i.e. 1/2 of last year's education levy requirement to cover the period January 1 to June 30) with the striking of an education mill rate to collect the full education requirement for the period September 1 to August 31.

## The Issue of Two Assessment Rolls

Education taxes for the fiscal year September 1 to August 31 will be raised from two Assessment Rolls. An education mill rate struck in June will apply on the current Tax Collector's Roll (which is in effect the Assessment Roll of the previous year plus supplementary assessments issued to July 31st) from September 1 to December 31, and the next year's Tax Collector's Roll (which is the current year's Assessment Roll) from January 1 to August 31. While the quantum of the second Assessment Roll will be unknown when the budget is set in June, any shortfalls or surpluses generated by the standard education mill rate will be addressed as a first priority in setting the following year's budget, the same manner as under or over levies are handled now.

## Municipal Remittances of Education Taxes

At present, municipalities that collect education taxes on behalf of school boards are required by law to remit the revenues to the boards four times a year: March 31, June 30, September 30 and December 15. Some municipalities remit more frequently at their discretion.

Cash flow has been a problem for school boards, particularly during the January to June period when they make most of their expenditures. In 1987, the Ontario Government increased its own cash flow to school boards (transfer payments) during the January 1 to March 31 period from seven per cent to 17 per cent of the allocation.

This submission recommends that municipalities remit property assessment/tax revenues to school boards at least eight times per year. The four additional payment dates would be February 15, May 15, August 15 and November 15.

## Tax Collection

Currently, most school taxes are collected by the 800 lower-tier municipalities within school board jurisdictions and are then remitted to the school board at specified times during the tax year. Some 54 school boards collect their own taxes in areas where there is no municipal organization.

It is proposed that the status quo will be maintained, namely that municipalities will continue to collect education taxes for school boards where they do so now.

## Determining When to Implement a Change in the Fiscal Year

The acceptability of a change in the fiscal year will be shaped by the timing of implementation. In a spirit of fairness to trustees, administrators and the general public, it is suggested that any change should be made effective immediately following and not immediately proceeding the triennial elections of trustees. It is recommended therefore, that any change take place in 1995.

## OPTIONS

The following four options were reviewed.

Option 1: The Status Quo, Fiscal Year is Calendar Year;

Pros:
* familiar to all stakeholders
* no disruption or expense associated with transition to a new year-end

Cons:
* limits accountability - budget approved after significant expenditures
* program decisions and funding are based on only part of the year
* involves heavy workload for board administrative staff

Option 2: Fiscal Year is Calendar Year, but General Legislative Grants Regulations are Published in Early November

Pros:
* familiar to all stakeholders
* no disruption or expense associated with transition to a new year-end
* release of GLG Regulations before start of fiscal year gives boards more information for developing their budgets
* earlier publication of GLG Regulations allows for a better distribution of board workload

Cons:
* boards would still be hard-pressed to produce a budget prior to the start of the fiscal year
* the GLG Regulations would be based on an estimate of what Treasury would allocate to the Ministry:
* Treasury would likely oppose such an estimate;
* the Ministry of Education would tend to be conservative in its estimates, which might lead to a more conservative allocation to the Ministry (and thus to school boards)
* the GLG Regulations would be based on forecasts of the assessment roll and, therefore, assessment revenue
* no certainty

Option 3: Fiscal Year of July 1 to June 30

Pros:
* corresponds to operational year
* enhances accountability
* promotes effectiveness and efficiency by distributing administrative workload throughout the year
* release of GLG Regulations (March 31) before start of fiscal year gives boards more information for developing their budgets
* earlier publication of GLG Regulations allows for a better distribution of board workload

Cons:

* difficulties of transition and implementation
* includes summer school at beginning of fiscal year when, operationally, it falls at the end of the year
* fiscal year-end coincides with a peak time for administrators (determining instructional staffing requirements for the next operational year; final exams)
* teachers' vacations occur at, and vacation pay applies to, the beginning of the new fiscal year rather than the end
* conflicts with municipalities' fiscal year

Option 4: Fiscal Year of September 1 to August 31:

Pros:

* enhances accountability
* distributes administrative workload over the year
* release of GLG Regulations (March 31) well before start of fiscal year gives boards more information for developing their budgets
* earlier publication of GLG Regulations allows for a better distribution of board workload
* corresponds to operational year and terms of teacher contracts
* includes summer school at end of both fiscal and operational years
* teachers' vacations occur at and vacation pay applies to end of both fiscal and operational years

Cons:

* difficulties of transition and implementation
* conflicts with municipalities' fiscal year
* some boards may object to necessity to plan a budget during summer months

**Preferred Option:**

Option 4: Fiscal Year of September 1 to August 31

Note:

There are several inter-related issues and proposals involving timing which require consultation with school boards, the Ministries of Education, Municipal Affairs, Revenue and Treasury and Economics, the Association of Municipalities of Ontario and other education stakeholders.

* dates for boards to submit financial statements, estimates and revised estimates
* date for boards' requisitions to municipalities
* dates of tax payments
* date of capital allocation announcements
* date for submission of capital expenditure forecasts
* dates for submission of school board reports
* dates for reporting enrolment data, both for grant purposes and for the Ministry's preparation of the GLG Regulations

Based on some preliminary work prepared by the Ministry of Education, Appendices 1 to 4 are flow charts of General Workload Timeframes for GLG., School Board Critical Reporting Dates, Provincial Critical Reporting Dates and Cashflow. All of these matters can be effectively addressed. It is likely that the Ministry of Education would take the lead in the consultation process.

**Implementation Issues:**

The General Legislative Grants Regulations under the Education Act be issued in advance in April in respect of the Fiscal Year September 1 to August 31 and that the Education Act be amended to effect same.

The Transition Period be January 1 to August 31 and the Education Act, the Municipal Act, and other relevant statutes be amended to effect same.

The Education Act, the Municipal Act, and other relevant statutes be amended to change the fiscal year to September 1 to August 31, and that the change be implemented in 1995.

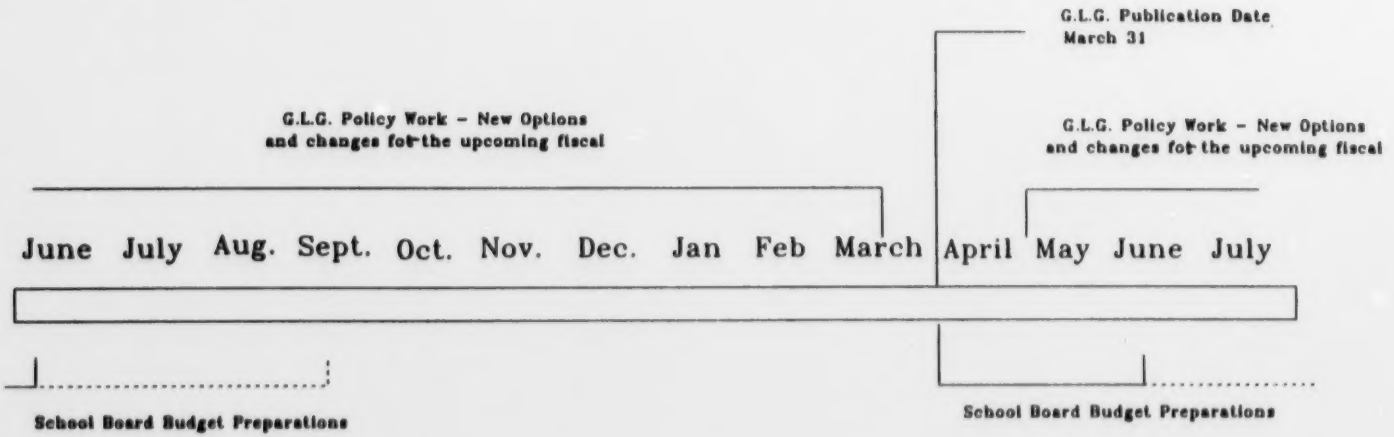
The municipal remittance of education tax revenues be established in law eight times a year in equal instalments as follows: February 15, March 31, May 15, June 30, August 15, September 30, November 15 and December 15.

The Municipal Act and other relevant statutes be amended to replace the reference to the interim education tax levy with the requirement that the municipality be required to strike an education mill rate to collect the balance of the education levy;

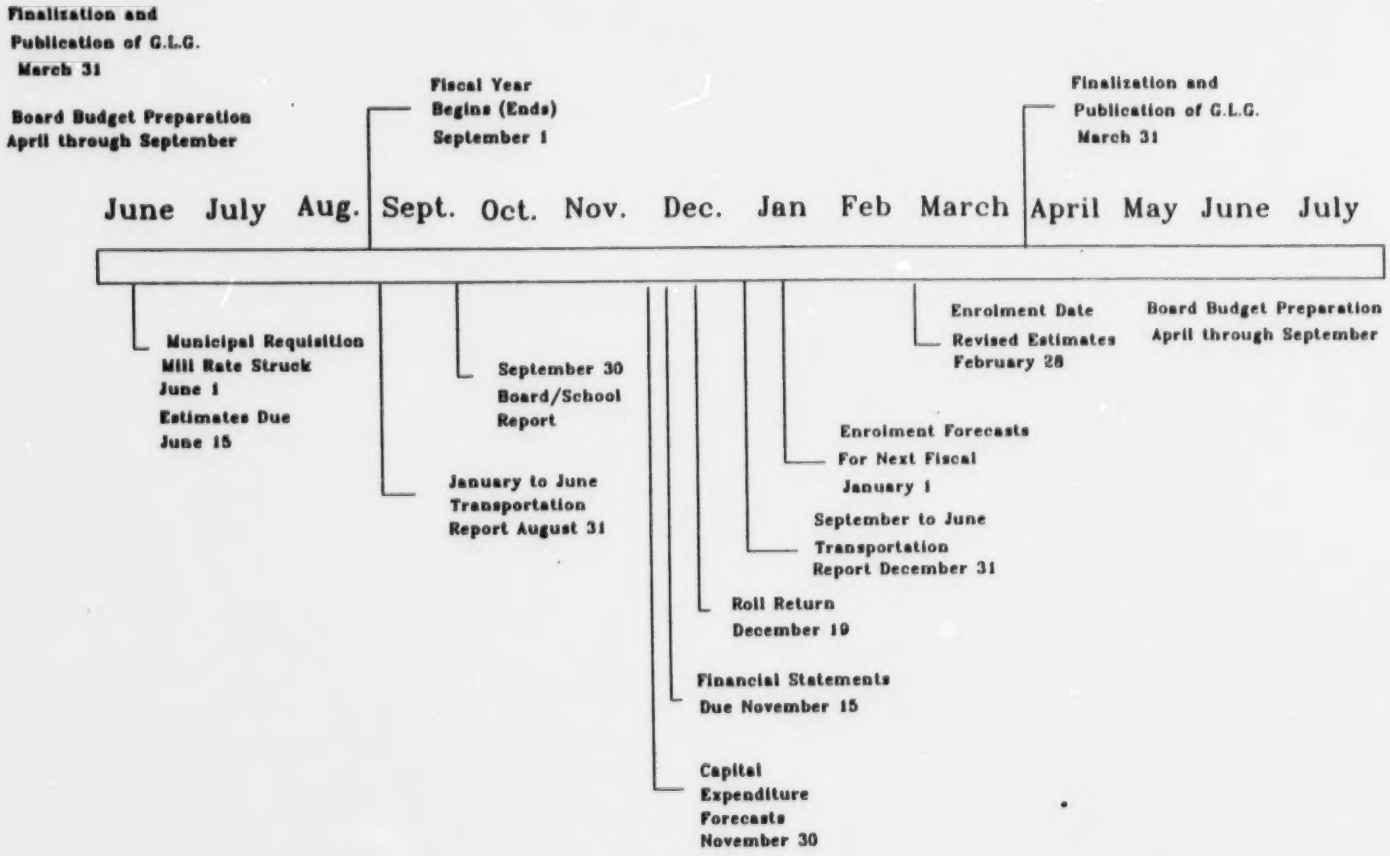
That there be a transition team, composed of representatives from Member Boards, the Ministry of Education, the Ontario Separate School Trustees' Association, L'Association francaise des conseils scolaires de l'Ontario, Ontario Association of School Business Officials, Ministry of Municipal Affairs, Ministry of Revenue, Ministry of Treasury and Economics and the Association of Municipalities of Ontario be created to assist in the implementation.

# Appendix 1

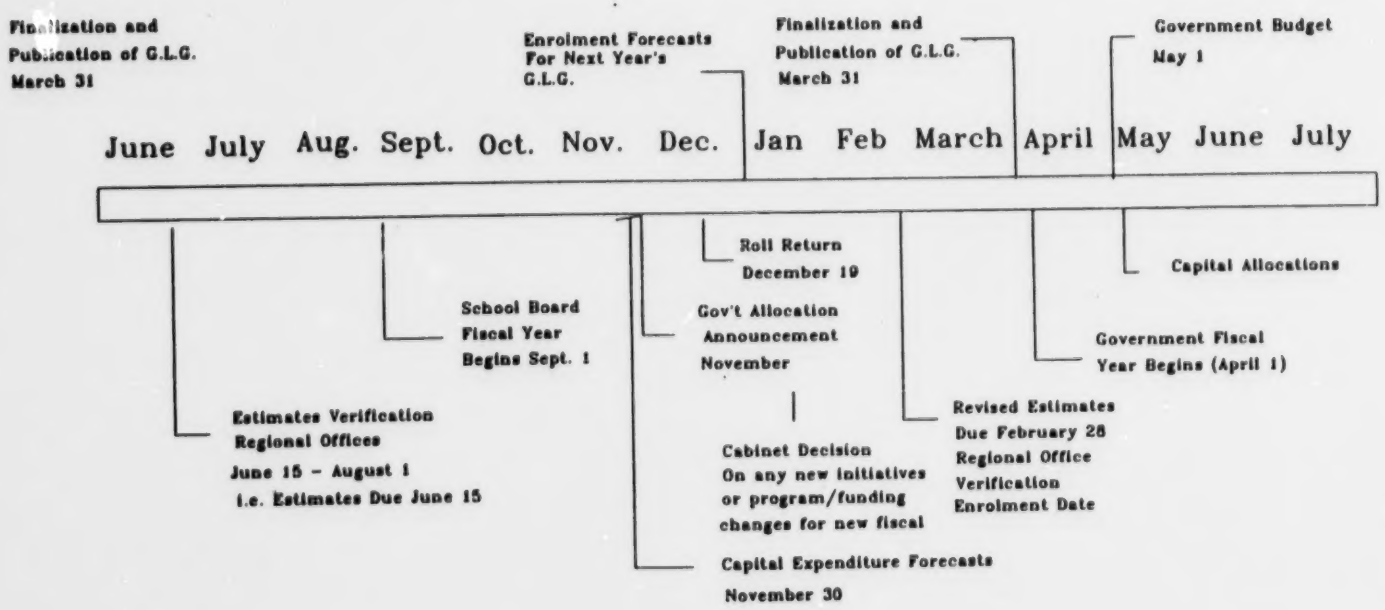
## General Workload Timeframes for G.L.G


G.L.G. Publication Date
March 31
G.L.G. Policy Work – New Options
and changes for the upcoming fiscal
G.L.G. Policy Work – New Options
and changes for the upcoming fiscal
June July Aug. Sept. Oct. Nov. Dec. Jan Feb March April May June July
School Board Budget Preparations
School Board Budget Preparations

# Appendix 2
# School Board Critical Reporting Dates

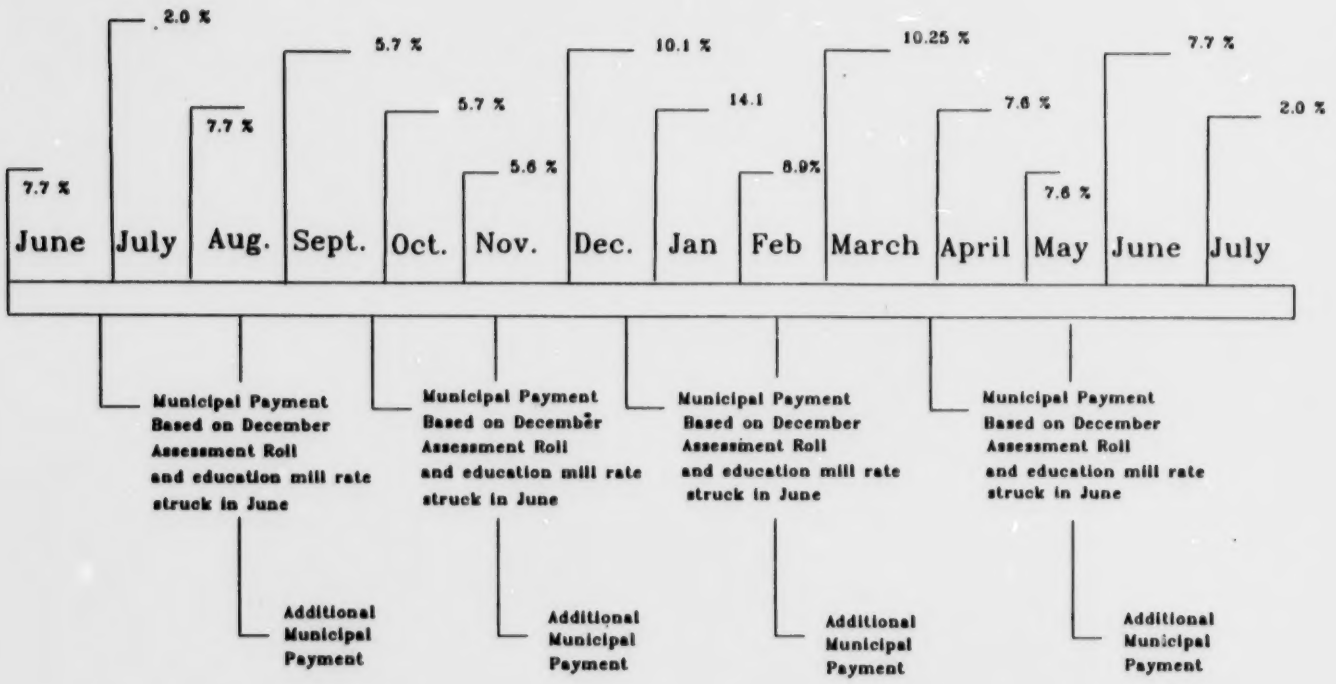

Finalization and Publication of G.L.G. March 31
Board Budget Preparation April through September
Fiscal Year Begins (Ends) September 1
Finalization and Publication of G.L.G. March 31
June July Aug. Sept. Oct. Nov. Dec. Jan Feb March April May June July
Municipal Requisition Mill Rate Struck June 1
Estimates Due June 15
January to June Transportation Report August 31
September 30 Board/School Report
Enrolment Date
Revised Estimates February 28
Board Budget Preparation April through September
Enrolment Forecasts For Next Fiscal January 1
September to June Transportation Report December 31
Roll Return December 19
Financial Statements Due November 15
Capital Expenditure Forecasts November 30

# Appendix 3
# Government/Ministry of Education
# Critical Reporting Dates


Finalization and Publication of G.L.G. March 31
Enrolment Forecasts For Next Year's G.L.G.
Finalization and Publication of G.L.G. March 31
Government Budget May 1
June July Aug. Sept. Oct. Nov. Dec. Jan Feb March April May June July
Roll Return December 19
Capital Allocations
School Board Fiscal Year Begins Sept. 1
Gov't Allocation Announcement November
Government Fiscal Year Begins (April 1)
Estimates Verification Regional Offices June 15 - August 1 i.e. Estimates Due June 15
Revised Estimates Due February 28 Regional Office Verification Enrolment Date
Cabinet Decision On any new initiatives or program/funding changes for new fiscal
Capital Expenditure Forecasts November 30

# Appendix 4
# Government/Municipal Cashflow

**Government Cashflow**




**Municipal Payments at 1/8 of the board requisition.**